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THE ENTERPRISE FOUNDATION

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Proposed Dividend Exemption Would Jeopardize Low Income Housing, Other Community Investments

Local Initiatives Support Corporation (LISC) and The Enterprise Foundation, the nation's largest nonprofit community development organizations, are deeply concerned that the Administration's proposal to exempt shareholders from tax on corporate dividends would seriously jeopardize the production of low-income rental housing, as well as other community revitalization investments. *Enterprise and LISC urge the Administration and Congress to protect the Low Income Housing Tax Credit, the New Markets Tax Credit, and the Administration's proposed homeownership tax credit from the adverse effects that would grow out of the proposed corporate dividend exemption.*

More and more working families need affordable housing. Today, 40 million Americans – one in seven – either spend more than half of their income on housing or live in substandard conditions. *This problem increased by an alarming 60% between 1997 and 2001.*

The Low Income Housing Tax Credit has financed the development of 1.3 million affordable rental homes since first enacted in 1986. Two years ago Congress expanded the widely praised Housing Credit by 40%, with the bipartisan co-sponsorship of 86% of the Congress. Today it is *the nation's primary affordable housing development program*, responsible for more than 115,000 rental homes annually. The dividend exclusion proposal directly threatens the continuation of this important activity.

Under the Administration's proposal, the amount of dividends that shareholders receive tax-free depends directly on how much tax the corporation has paid. Whereas currently corporations receive a tax benefit for making investments in affordable housing through the Housing Credit, the dividend exemption as proposed would effectively discourage corporations from making these kinds of investments. In this instance, because tax credits reduce a corporation's taxes, they will also reduce the shareholders' tax-free dividends. As the attached analysis by Ernst & Young shows, a corporation's shareholders would lose more from reduced dividend exclusions than they would gain from the corporation's Housing Credit investments. LISC and Enterprise believe that corporations would not continue to invest in low-income housing under these circumstances.

Beyond low-income rental housing, the dividend exclusion proposal would also jeopardize up to $15 billion in investments in urban and rural economic development through the New Markets Tax Credit. New Markets was enacted in 2000, and the Treasury Department is preparing to issue the first $2.5 billion of investment authority based on these tax credits. Corporations will have the same disincentive to make New Markets investments as they will have for Housing Credits. The dividend exclusion proposal would also stall a very promising new tax credit the Administration has proposed to stimulate investment in single-family homes to be developed in distressed low-income communities and sold to lower-income families.

Congress carefully considered and enacted the Housing Credit and New Markets Tax Credit. The unintended consequence of the Administration's proposal is to create an unnecessary trade-off between corporate investments in affordable housing and shareholder value. The Administration and Congress should take whatever steps are necessary to avoid this undesirable outcome.